

Slide 1



26th annual FAA Commercial Aviation Forecast Conference
Washington DC
13-14 March 2001

Wednesday 14 March 2001 Airports breakout session
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PRICING AT BUSY AIRPORTS
BAA EXPERIENCE

BAAplc

- from British Airports Authority to BAAplc
- out of the arms of government
- investing in capacity
- facing the customers
- economic theory
- practical application

Slide 3

BAAplc - a major international airport operator

- London - Heathrow, Gatwick, Stansted
- Scotland - Glasgow, Edinburgh, Aberdeen
- Southampton
- Indianapolis, Harrisburg
- Naples
- Mauritius
- Melbourne, Launceston
- ...and now Perth and Australian Northern Territory airports

PRICING AT BUSY AIRPORTS

- the rear view mirror
- present perspectives
- looking ahead

REAR VIEW MIRROR

- a thirty year history!
- why BAA got into economic pricing of airport capacity
- how BAA implemented peak pricing
- how our airport charges structure developed
- how airline customers reacted!
- did patterns of demand change?
- why BAA has partially moved away from peak pricing

Economic pricing of scarce airport capacity

- charges originally based on ability to pay
- concepts of long run marginal cost
- pricing signals on the use of existing capacity
 - LHR then a three terminal airport
 - LGW one terminal
- pricing objective- improve utilisation of capacity

How BAA implemented peak pricing ..1970s

- summer surcharge on weight charge
- introduction of passenger charge
- peak multiplier on aircraft parking charges

How BAA airport charges structure developed into the 1980s

- weight charges
 - refinement of peak structure
 - introduction of flat rates
- departing passenger charges
 - far greater emphasis on peak/off-peak level
- aircraft parking charges
 - use of multipliers

1980s pricing signals related to:

- growth in demand
- planned investment in Heathrow Terminal 4 and Gatwick Terminal 2 (north)
- impact of peak demand on the terminals
- peak pricing on the runway, across the terminals and on the apron

How airline customers reacted!

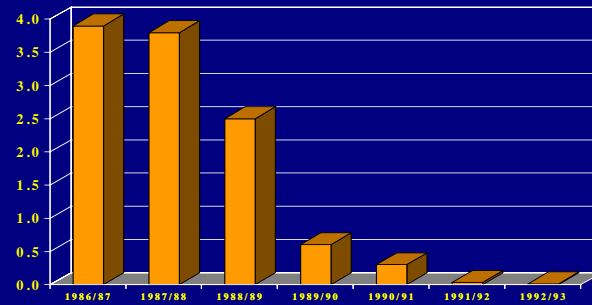
- noted departure from weight based charging
- disputed cost basis of charges
- cited discrimination
- highlighted importance of schedules

Did patterns of demand change?

- limited evidence
 - on the margin at Heathrow?
 - charter operators at Gatwick
 - primacy of slots and scheduling
 - impact of flat rate weight charges was significant
 - airport charges only small element of airline costs

Decline in small commuter aircraft at Heathrow after 1985

<16mt aircraft as percentage of total ATMs



Why BAA has partially moved away from
peak pricing

- terminals and runways increasingly busy all day
- passenger peaks less distinct
- unpopularity with airline customers
- charges difficult to calculate

PRESENT PERSPECTIVES

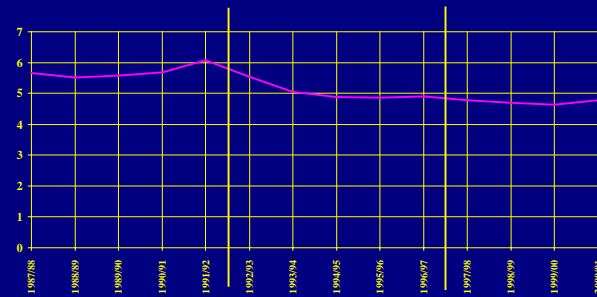
- impact of price control regulation
- BAA's present charge structure
 - less related to patterns of demand
 - levels inadequate for investment in new capacity

Impact of price control regulation

- 14 years of RPI-X
- charges fallen nearly 20per cent in real terms
- unsustainable in longer term for investment needs

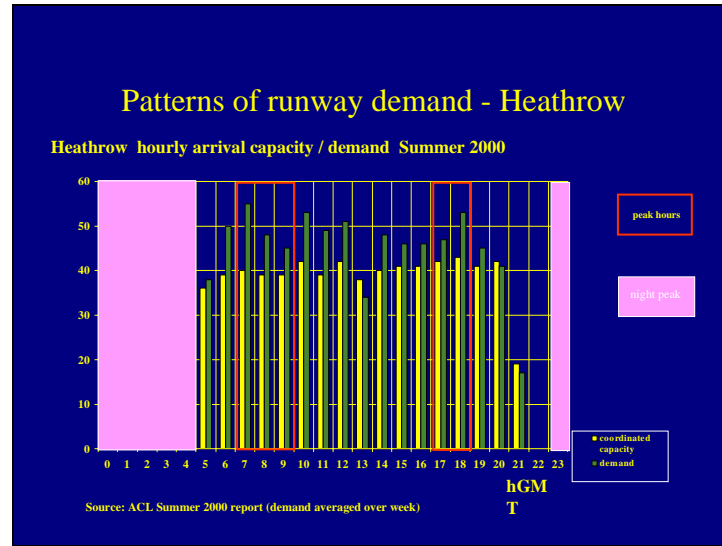
BAA London airport charges declining in real terms

£ yield/passenger BAA London airports constant 2000 prices



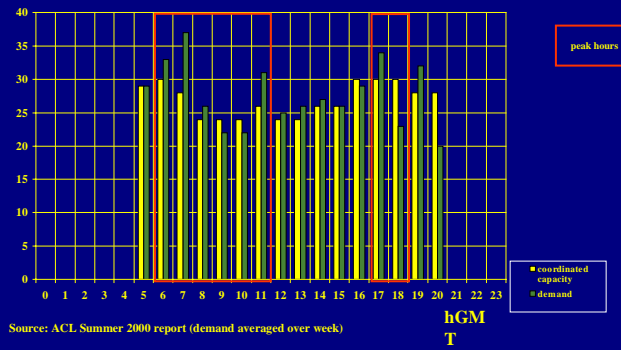
BAA's present charge structure

- weight charge
 - summer only application of diurnal peak
 - 3h* early morning, 2h early evening + night peaks(for environmental reasons)
(* extension at LHR in 2001)
- departing passenger charge
 - no peak structure since 1998 LHR, 1999 LGW/STN
- parking structure
 - summer only 3x multipliers in morning period

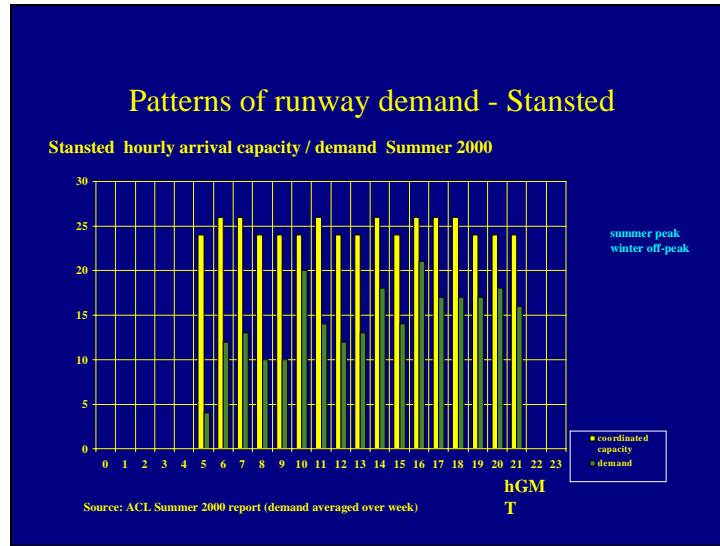


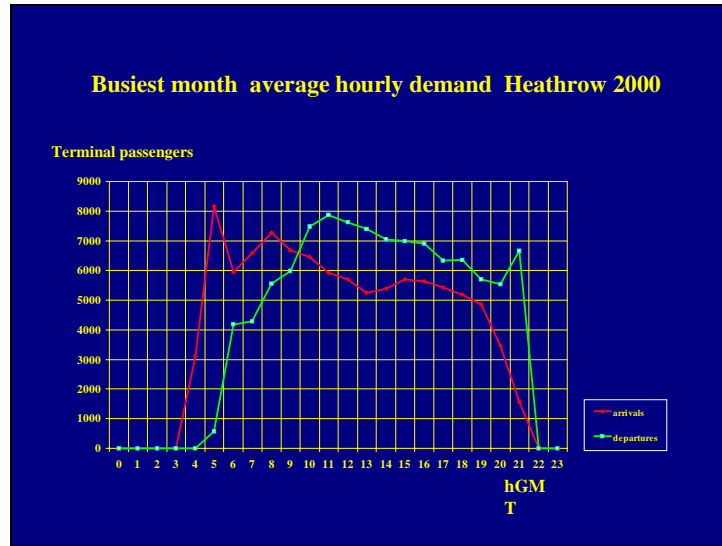
Patterns of runway demand - Gatwick

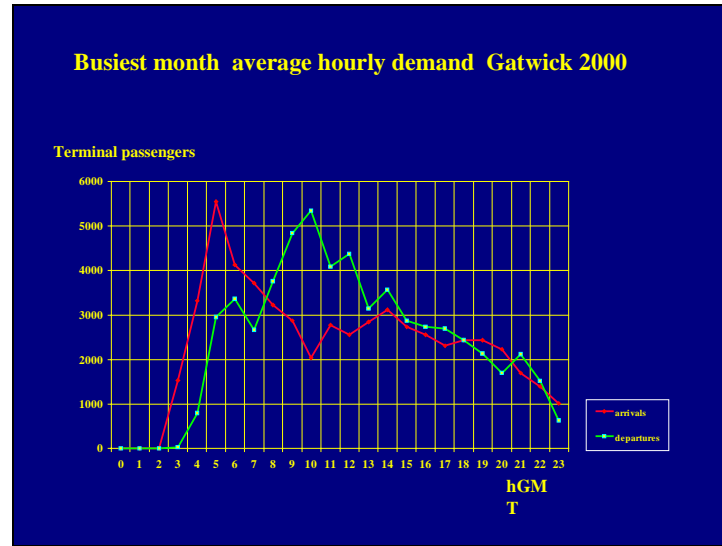
Gatwick hourly arrival capacity / demand Summer 2000

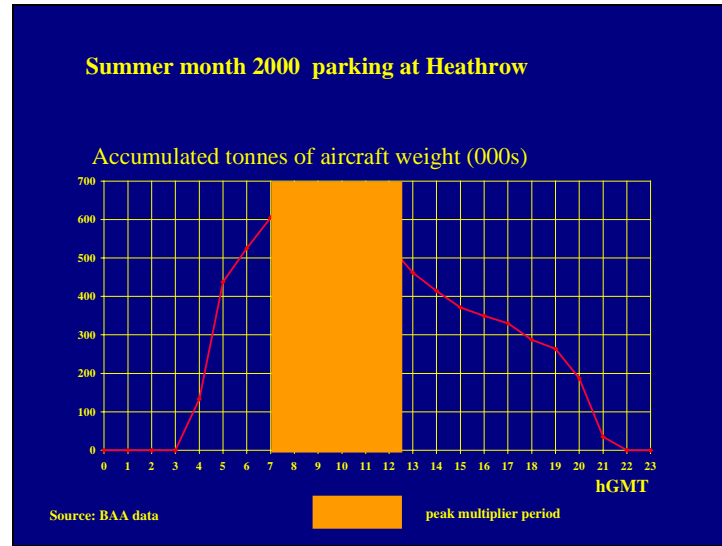


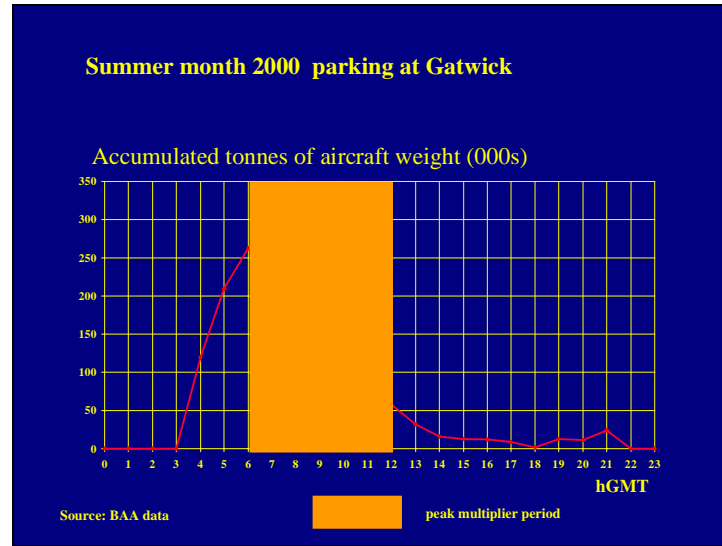
Source: ACL Summer 2000 report (demand averaged over week)











Investment in new capacity

- Heathrow Terminal 5 -permission in 2001?
- Gatwick existing terminals expansion
- Stansted new terminal (planning permission)
- but no new runways planned yet (government consultation from 2002)
- requires appropriate level of charges

LOOKING AHEAD

- UK CAA regulatory review
- UK government airport policy
- EU policy on slots

UK CAA regulatory review

- focus on economic basis of charges
- consideration of 'regulatory domain'
 - status of single till
- level of BAA London airport charges
- structural signals for economic efficiency and wider goals
- charges not the basis of allocating capacity

UK government airport policy

- role of slots in allocating scarce capacity
- administrative solutions
- present system examined
- auctions or other allocative devices
- just new, some or all slots

EU slot policy

- Summer 2000 consultation with industry continues
- potential replacement for 1993 directive
- balance between views of airports and airlines
- grandfather rights v new entrants
- practical reality

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